HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK
Kelowna CMA

CANADA MORTGAGE AND HOUSING CORPORATION

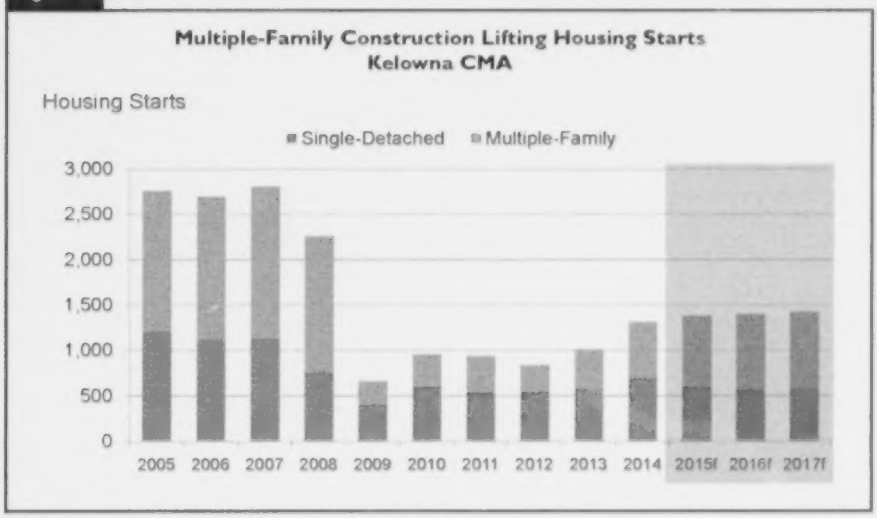
Date Released: Fall 2015

Kelowna Highlights[1]

- An expected increase in multiple-family housing starts along with a tapering in single-detached home construction will result in a steady number of total housing starts through 2015-2017.
- MLS® average prices are forecast to increase modestly over the forecast period as the resale market maintains activity above the 10-year average.
- Population and employment growth will support demand for new rental accommodations, leading to steady rental apartment starts.
- Employment growth is expected to increase during the next two years.

Figure 1

Multiple-Family Construction Lifting Housing Starts
Kelowna CMA



Source: CMHC Starts and Completion Survey; CMHC forecast

[1] The forecasts included in this document are based on information available as of October 2, 2015.

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New Home Market: Multiple-Family Construction Leads the Way

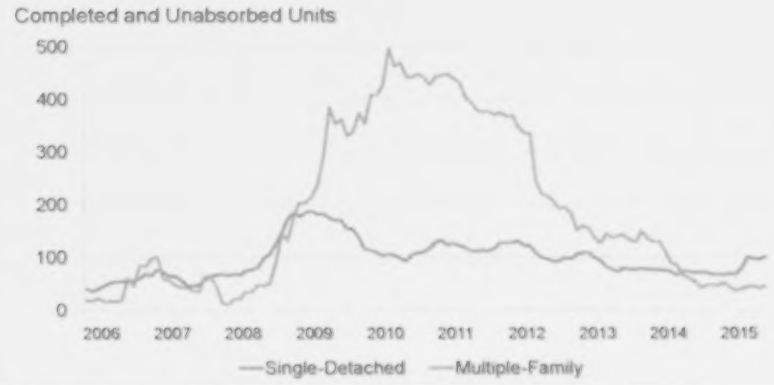
Increasing employment opportunities, low mortgage rates and population growth will support steady demand for homes in the Kelowna Census Metropolitan Area (CMA). Total housing starts are forecast to reach 1,380 units by the end of the year, followed by 1,400 units in 2016 and 1,420 new homes in 2017 (see Figure 1).

The annual number of single-detached starts is forecast to stabilize at a marginally lower level than in 2014, reflecting a market where supply and demand are well-matched. The inventory of completed and unsold (unabsorbed) single-detached homes has remained relatively stable over the past two years and even saw a slight increase mid-2015 (see Figure 2). As a result of these balanced supply and demand conditions, single-detached starts are forecast to reach 600 units in 2015, followed by similar levels in 2016 and 2017 of 575 and 585 starts respectively.

On the multiple-family side of the market, starts are forecast to reach 780 units by the end of 2015 before stabilizing around 830 starts in each of 2016 and 2017. Multiple-family construction will therefore make up a greater share of new home construction over the next two years, a composition of construction activity not seen since before 2008. New construction of multiple-family units has slowly made a comeback after an extended period post-2008 where inventories of completed and unsold units were elevated. Builders have responded to lower inventories of completed and unsold homes in 2015, resulting in a stronger pace of multiple-family construction that is expected to continue through 2016 and 2017 as supply moves into balance with demand for this housing type (see Figure 2).

Figure 2

Inventories of Unabsorbed Multiple-Family Homes Remain Low Kelowna CMA



Source: CMHC Absorptions Survey. Last data point August 2015.

Through the first eight months of 2015, new home construction is up over 10 per cent, with single-detached starts down 13 per cent and multiple-family starts up 45 per cent. So far this year, there have been a total of 824 housing starts compared to 747 starts over the same period last year. New construction of single-detached homes make up 46 per cent of all activity so far in 2015, while multiple-family dwellings comprise the remaining 54 per cent. The trend towards a greater share of multiple-family home construction is expected to be supported over the forecast horizon by favourable economic conditions and population growth.

Existing Home Market: Steady Activity Expected

Total residential MLS® sales in the Kelowna CMA are expected to rise 6 per cent in 2015 over 2014 levels, and to maintain this trend strength through 2016 and 2017 with close to 5,200 sales each year (see Figure 3). Throughout this period, the resale market as a whole is expected to remain in balanced market territory, with new home sales picking up any excess demand. Rising home prices are expected to increase listings, keeping demand and supply in check. These forecasts represent the highest levels of resale activity since 2007 and reflect favourable economic conditions over the forecast horizon.

The level of activity in Kelowna's resale market has been steadily increasing over the past three years. The most recent year-to-date figures ending in August 2015 show that total residential MLS® sales have increased 12 per cent over the first eight

months of last year. The composition of sales in the first eight months of 2015 show that MLS® sales of multiple-family homes have increased 6 per cent compared with the same period last year, while single-detached home sales have remained relatively unchanged. As a result, the average price for total residential MLS® sales transacting during the first eight months of 2015 was $432,890, up marginally from $430,113 over the same period last year.

Total residential MLS® average prices are forecast to increase 4.5 per cent to $445,000 in 2015 from $425,996 in 2014. Growth in total residential MLS® average prices is expected to continue into 2016 and 2017, reaching $455,000 and $460,000 respectively. Increases in the average price will be more modest in 2016 and 2017 as the composition of sales shifts towards a higher share of multiple-family homes.

Figure 3

Source: Okanagan Mainline Real Estate Board (OMREB), CMHC forecast.
MLS® Multiple Listing Service (MLS®) is a registered certification mark owned by the Canadian Real Estate Association.

Rental Market: Vacancy Rates to Begin Slow Upward Trend

The rental market in the Kelowna CMA has been supported over the past five years by a combination of post-secondary students, people moving to the region, and residents who choose to rent rather than own. Apartments in and around the University of British Columbia - Okanagan (UBC Okanagan) will continue to attract students from throughout the B.C. Interior, while growing employment opportunities in the area are expected to support population growth via migration. Moreover, the attractiveness of the Okanagan region for retirement and lifestyle choices will provide additional support to population growth and demand for rental housing. Current population projections for the Kelowna CMA over the 2015-2017 period support this outlook and show that individuals between the ages of 25-40 and 55+ will be the fastest growing segments of the population[2]. Based on these projections, the Kelowna CMA is expected to add over 1600 households annually through the 2015-2017 period.

Rental vacancies in the Kelowna CMA reached their lowest point in 2014 with the results of the Fall Rental Market Survey showing an apartment vacancy rate of 1.0 per cent[3]. Continued development around UBC Okanagan, both on campus and private development off campus, as well as Kelowna General Hospital will support construction of purpose-built rentals going into 2016. So far this year, approximately 91 per cent of rental construction has been apartments with the remaining nine per cent consisting of semi-detached and row structures.

Fall rental apartment vacancy rates are forecast to slowly move upwards to 1.5 per cent in 2015, 1.8 per cent in 2016 and 2.0 per cent in 2017 as supplies in the primary and secondary rental market increase at a slightly faster pace than demand for rental accommodation. The secondary rental market consists of investor-owned condominiums as well as secondary suites and carriage houses. Investor owned condominiums are becoming a popular option in Kelowna, which will lend some support in satisfying demand over the next few years. Given that supply is expected to slightly outpace demand in Kelowna, average rents are forecast to grow at a pace in line with the rate of inflation.

[2] BC Stats Sub-Provincial People Projections (P.E.O.P.L.E 2015)

[3] CMHC's 2014 Fall Rental Market Survey

Economic Trends: Employment and Population Growth will Support Demand

Employment gains in the Kelowna CMA will support housing demand over the next two years. In the first seven months of 2015, seasonally-adjusted employment levels increased 2.7 per cent[4]. Modest momentum in the labour market is expected to continue as support from the low Canadian dollar is expected to have a positive impact on the local economy.

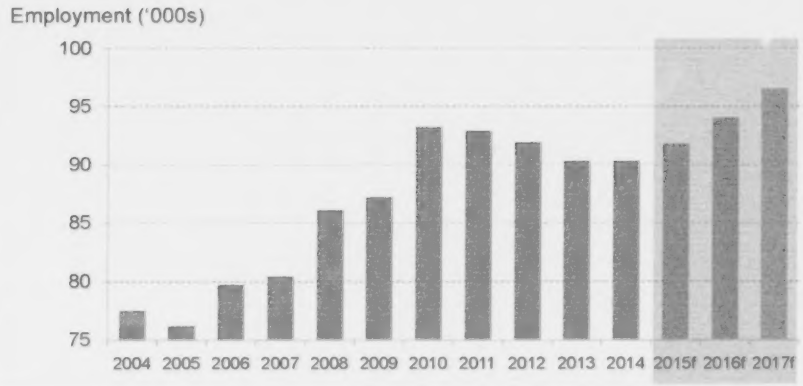
The majority of the gains seen so far in 2015 are expected to hold with total employment (seasonally adjusted) forecast to increase 1.7 per cent. Continued strength into 2016 and 2017 will result in overall employment gains of 2.4 and 2.7 per cent respectively (see Figure 4). An improving labour market will support migration to the region and encourage those who are already residents to consider participating in the labour force. Considerations like this will result in the unemployment rate fluctuating, reaching 5.0 per cent by the end of 2015, 4.6 per cent in 2016 and 5.0 per cent in 2017.

Over the next two years, the majority of population growth will come from migration to the region. Intraprovincial migration, which brings people to the Kelowna area from elsewhere in B.C., will be the largest contributor, while those moving from elsewhere in Canada will be a growing segment adding to the population through 2016 and 2017. It is forecast that 2,800 people will migrate to Kelowna in 2015, with an additional 2,850 and 3,000 people in 2016 and 2017 respectively.

[4] BC Stats Labour Force Survey.

Figure 4

Stronger Employment Growth Forecast
Kelowna CMA



Source: Statistics Canada, CMHC forecast.

The Kelowna International Airport and the businesses that rely on it will continue to play a key role in Kelowna's economic prosperity going forward. The expansion of the airport will result in the Okanagan becoming increasingly more attractive to tourists and businesses. In addition, the Kelowna General Hospital expansions also contribute to greater employment opportunities and make Kelowna a more attractive place to relocate to given the likely increased access to local health care. Beyond public sector investment, increased business investment is expected as a result of increased tourism and demand for locally produced goods. UBC Okanagan will play a key role in developing and retaining skilled workers for the labour force, particularly as existing students may be more inclined to live and work in Kelowna post-graduation.

Mortgage rates are expected to begin to rise moderately from current levels late in 2016

Mortgage rates are expected to continue trending close to current levels, supporting housing demand. However, consistent with the view of Canadian economic forecasters, CMHC expects interest rates to begin to rise moderately from current levels late in 2016, contributing to a modest slowdown in housing markets.

According to CMHC's base case scenario for 2015, the one-year mortgage rate is expected to be in the 2.60 to 3.30 per cent range, while the five-year rate is forecast to be within the 4.10 to 5.20 per cent range. For 2016, the one-year mortgage rate is expected to be in the 3.00 to 3.80 per cent range, while the five-year rate is forecast to be within the 4.70 to 6.00 per cent range. For 2017, the one-year mortgage rate is expected to be in the 3.90 to 4.80 per cent range, while the five-year rate is forecast to be within the 5.10 to 6.50 per cent range.

Trends at a Glance

Key factors and their effects on housing starts	
Mortgage Rates	Mortgage rates will begin to rise gradually late in 2016, contributing to moderation in housing demand.
Population	The population of the Kelowna area will increase steadily over the forecast horizon, supporting housing demand. Intraprovincial migration (people moving into the region from other areas of the province) will continue to be the main driver of population and household growth.
Employment	Total employment (seasonally adjusted) grew by 2.7 per cent over the first seven months of 2015. Housing demand will benefit from higher employment levels.
Income	Real average weekly earnings were 0.3 per cent lower in 2014. This result is expected to shift demand towards less expensive housing options in 2015 and 2016, including rental and denser (multiple-family) housing forms.
Resale Market	Total residential MLS® sales have picked up notably so far in 2015, which has not been equally met by an increase in new listings. Following an active 2014, resale transactions will increase in 2015 and then hold steady throughout 2016 and 2017.
Supply of Newly Completed and Unabsorbed Units	The inventory of completed and unabsorbed units remains low in the multiple-family segment, while single-detached inventories have begun to slowly rise. This will support steady new home construction activity of single-detached and increased development of multiple-unit home types.
Vacancy Rates[5]	Vacancy rates for the Kelowna area are forecast to increase modestly in response to the introduction of new purpose-built rental units over the forecast horizon. Demand for rental accommodations will continue to grow, keeping rent increases in-line with inflation.

Forecast Risks

This outlook is subject to upside and downside risks, including but not limited to the following:

- A prolonged period of lower oil prices could discourage demand from Albertans for recreational properties in the Kelowna area. However, more people moving to the region from other parts of B.C. and Canada could boost demand for housing.
- A strong US dollar and growing US economy could boost tourism- and export-related industries in the Kelowna region, fuelling growth in tourism-, retail-, and manufacturing-based employment.
- Canadian debt levels remain elevated relative to income levels, leaving households vulnerable to adverse shocks. Should interest rates rise quickly or employment conditions deteriorate, some households that are more heavily indebted might be forced to liquidate their assets, which could include their primary residence. This would add to the supply of housing and could place downward pressure on prices.
- Increasing strength in the resale market, where new listings do not keep pace with sales, poses a risk to the starts forecast. A strong resale market that falls into a sellers' market level of activity would signal to builders that more new construction is needed which could result in actual starts being higher than forecast.

[5] The apartment vacancy rate is for purpose-built rental apartments.

Forecast Summary
Kelowna CMA
Fall 2015

	2012	2013	2014	2015(F)	% chg	2016(F)	% chg	2017(F)	% chg
New Home Market									
Starts:									
Single-Detached	544	579	695	600	-13.7	575	-4.2	585	1.7
Multiples	292	434	616	780	26.6	825	5.8	835	1.2
Semi-Detached	68	100	163	160	-1.8	150	-6.3	140	-6.7
Row/Townhouse	126	103	182	180	-1.1	170	-5.6	185	8.8
Apartments	98	231	271	440	62.4	505	14.8	510	1.0
Starts - Total	836	1,013	1,311	1,380	5.3	1,400	1.4	1,420	1.4
Average Price ($):									
Single-Detached	737,419	754,024	695,212	710,000	2.1	736,000	3.7	757,000	2.9
Median Price ($):									
Single-Detached	589,450	589,900	599,000	610,000	1.8	623,000	2.1	629,000	1.0
New Housing Price Index (% chg) (B.C.)	-0.8	-1.0	-1.2	0.5	-	0.9	-	1.4	-
Resale Market									
MLS® Sales	3,515	4,016	4,886	5,200	6.4	5,200	0.0	5,300	1.9
MLS® New Listings	8,847	8,278	8,445	8,800	4.2	8,940	1.6	9,170	2.6
MLS® Average Price ($)	501,073	490,700	541,898	543,000	0.2	560,000	3.1	577,000	3.0
Rental Market									
October Vacancy Rate (%)	4.0	1.8	1.0	1.5	0.5	1.8	0.3	2.0	0.2
Two-bedroom Average Rent (October) ($)	927	970	980	995	1.5	1,010	1.5	1,030	2.0
One-bedroom Average Rent (October) ($)	750	778	788	800	1.5	820	2.5	830	1.2
Economic Overview									
Mortgage Rate (1 year) (%)	3.17	3.08	3.14	2.60 to 3.30	-	3.00 to 3.80	-	3.90 to 4.80	-
Mortgage Rate (5 year) (%)	5.27	5.24	4.88	4.10 to 5.20	-	4.70 to 6.00	-	5.10 to 6.50	-
Annual Employment Level	91,900	90,300	90,300	91,800	1.7	94,000	2.4	96,600	2.8
Employment Growth (%)	-1.1	-1.7	0.0	1.7	-	2.4	-	2.8	-
Unemployment rate (%)	6.5	6.6	4.6	5.0	-	4.6	-	5.0	-
Net Migration (B.C.)	31,838	28,653	45,012	39,000	-13.4	38,400	-1.5	39,900	3.9

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).
(1) The 2014, 2015 and 2016 migration data are forecasts.
Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM), OMREB (Okanagan Mainline Real Estate Board).
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over.
(1) MLS® Sales and New Listings = Total Residential. (2) MLS® Average Sale Price = Single Family Residential.

DEFINITIONS AND METHODOLOGY

New Home Market

Historical home starts numbers are collected through CMHC's monthly Starts and Completions Survey. Building permits are used to determine construction sites and visits confirm construction stages. A start is defined as the beginning of construction on a building, usually when the concrete has been poured for the whole of the structure's footing, or an equivalent stage where a basement will not be part of the structure.

Single-Detached Start:

The start of a building containing only one dwelling unit, which is completely separated on all sides from any other dwelling or structure.

Semi-Detached Start:

The start of each of the dwellings in a building containing two dwellings located side-by-side, adjoining no other structure and separated by a common or party wall extending from ground to roof.

Row (or Townhouse) Start:

Refers to the commencement of construction on a dwelling unit in a row of three or more attached dwellings separated by a common or party wall extending from ground to roof.

Apartment and other Starts:

Refers to the commencement of construction on all dwellings other than those described above, including structures commonly known as stacked townhouses, duplexes, triplexes, double duplexes and row duplexes.

Average and Median Single Detached Home Prices:

Are estimated using CMHC's Market Absorption Survey, which collects home prices at absorption and measures the rate at which units are sold or rented after they are completed. Dwellings are enumerated each month after a structure is completed until full absorption occurs. The term "absorbed" means that a housing unit is no longer on the market as it has been sold or rented.

New Home Price Indexes:

Changes in the New Home Price Indexes are estimated using annual averages of Statistics Canada's monthly values for New Housing Price Indexes (NHPI).

Resale Market

Historical resale market data in the summary tables of the Housing Market Outlook Reports refers to residential transactions through the Multiple Listings Services (MLS®) as reported by The Canadian Real Estate Association (CREA). In Quebec, this data is obtained by the Centris® listing system via the Quebec Federation of Real Estate Boards.

MLS® (Centris® in the province of Quebec) Sales:

Refers to the total number of sales made through the Multiple Listings Services in a particular year.

MLS® (Centris® in the province of Quebec) Average Price:

Refers to the average annual price of residential transactions through the Multiple Listings Services.

Rental Market

Rental Market vacancy rates and two bedroom rents information is from Canada Mortgage and Housing Corporation's (CMHC's) October Rental Market Survey (RMS). Conducted on a sample basis in all urban areas with populations of 10,000 and more, the RMS targets privately initiated structures with at least three rental units, which. have been on the market for at least three months. The survey obtains information from owners, managers, or building superintendents through a combination of telephone interviews and site visits.

Vacancy Rate:
The vacancy rate refers to the average vacancy rate of all apartment bedroom types. A unit is considered vacant if, at the time of the survey, it is physically unoccupied and available for immediate rental.

Two Bedroom Rent:
The rent refers to the average of the actual amount tenants pay for two bedroom apartment units. No adjustments are made for the inclusion or exclusion of amenities and services such as heat, hydro, parking, and hot water.

Economic Overview

Labour Force variables include the Annual Employment Level, Employment Growth, Unemployment Rate. Source: Statistics Canada's Labour Force Survey.

Net Migration:
Sum of net interprovincial (between provinces), net intra-provincial (within provinces), net international (immigration less emigration), returning Canadians and temporary (non-permanent) residents as provided to the CANSIM database by Statistics Canada's Demography Division. Sources of inter-provincial and intra-provincial migration data include a comparison of addresses from individual income tax returns for two consecutive years from Canada Revenue Agency (CRA) taxation records. The migration estimates are modelled, with the tax file results weighted to represent the whole population.

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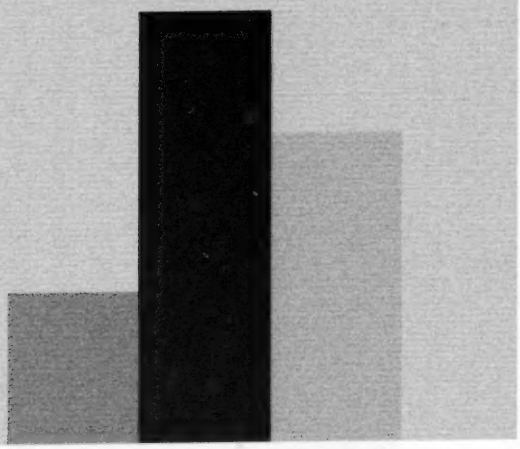

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